BRIEFINGNOTE

STEPHENSON HARWOOD
罗夏信律师事务所

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Proposed mandatory climate-related disclosures for listed companies

Overview

On 14 April 2023, the Stock Exchange of Hong Kong Limited (the "**Exchange**") issued a consultation paper to seek public feedback on proposals (the "**Proposals**") to enhance climate-related disclosures under its environmental, social and governance ("**ESG**") framework (the "**Enhanced Disclosure Framework**"). The Exchange will publish an implementation guidance setting out the principles and guidelines for the enhanced disclosure requirements together with the consultation conclusions.

The Proposals are formulated by reference to the draft International Sustainability Standards Boards' ("**ISSB**") climate-related disclosure standard (the "**ISSB Climate Standard**"). In March 2022, the ISSB published the exposure draft of the ISSB Climate Standard which was built upon the principles of the Task Force on Climate-related Financial Disclosures' ("**TCFD**") recommendations. When the Proposals are passed, Hong Kong will be an early mover in adopting the ISSB Climate Standard. This is proposed to be introduced as a new Part D in Appendix 27 to the Main Board Listing Rules or Appendix 20 to the GEM Listing Rules ("**Appendix 27**") with consequential amendments to be made to Appendix 27.

Background

Appendix 27 currently contains certain elements of the TCFD recommendations, where issuers are required to disclose a board statement regarding the board's governance and oversight of ESG issues. There are also requirements to disclose certain climate-related information on a "comply or explain" basis (meaning that if the issuer does not report on certain required aspects, it must provide considered reasons for the omission in its ESG report).

Under the Enhanced Disclosure Framework, all issuers will be mandated to make the relevant disclosures in their ESG report, a step up upon the "comply or explain" model. It has been commented that the Proposals adopt an "adaptive balanced approach", striking a balance between investors' demand for enhanced climate disclosure and the issuers' ability to comply with stringent climate disclosure requirements.

Proposals

The Enhanced Disclosure Framework will be categorised under four core pillars, namely governance, strategy, risk management and metrics and targets. A summary of the Proposals is set out in the table below:

	Current disclosure requirements	Enhanced disclosure requirements
Governance	(1) Board's oversight of ESG issues; (2) Board's management approach and strategy; and (3) How the board reviews progress made against ESG-related goals and targets.	(1) Identity of governance body; (2) Availability of appropriate skills and competencies to oversee climate-related strategies; (3) How and how often the board is informed about climate-related risks and opportunities; (4) Board's consideration of climate-related risks and opportunities; (5) Board's oversight of the setting and progress towards targets (including how related performance metrics are included in remuneration policies); and (6) Description of management's role.
Strategy	(1) Board's ESG management approach and strategy in managing ESG issues; and (2) Significant climate-related issues which may impact the issuer, and the actions taken to manage them.	(1) **Climate-related risks and opportunities**: assessment of climate-related risks with material effect over the issuer's business and climate-related opportunities; (2) **Transition plans**: description of the issuer's transition plans in response to the climate-related risks (including any climate-related targets set, any GHG emission targets the issuer is required to meet under local legislation and progress made in recent reporting years under such transition plans);

		(3) **Climate resilience**: information on the resilience of the issuer's strategy and operations to climate-related changes; and (4) **Financial effects**: describe and quantify (where material) the financial effect of climate-related risks and opportunities.
Risk management	(1) Evaluation and management of material ESG-related issues; and (2) Effectiveness of risk management and internal control systems.	(1) Description of the process used to identify climate related risks, including how the issuer: (i) Assesses the likelihood and effects of such risks (such as qualitative factors, quantitative thresholds and other criteria used); and (ii) Prioritises climate-related risks over other types of risks, including its use of risk-assessment tools; (2) Description of the monitoring and management of climate-related risks; and (3) Description of the integration of these processes into the overall risk management process;
Metrics and targets	(1) Scope 1 and 2 GHG emissions; (2) Hazardous and non-hazardous waste produced; (3) Energy consumption, such as electricity, gas or oil; (4) Total water consumption; and (5) Total packaging material used for finished products.	(1) **GHG emissions:** disclose the gross Scope 1, Scope 2 and Scope 3 emissions (i.e., emissions from upstream or downstream activities) during the reporting period; (2) **Other cross-industry metrics:** disclose the cross-industry metrics such as the percentage of assets or business activities (i) vulnerable to transition/physical risks or (ii) aligned with climate-related opportunities, and the amount of capital expenditure deployed towards climate-related risks and opportunities; (3) **Internal carbon price:** for issuers who maintain an internal carbon price, disclose the internal carbon price and explain how it is applied in the issuer's decision-making; (4) **Remuneration:** disclose how climate-related considerations are factored into remuneration policy; and (5) **Industry-based metrics:** consider industry-based disclosure requirements prescribed under international ESG reporting frameworks and make disclosures as the issuer sees fit.

Interim provisions

The Exchange has proposed interim provisions for certain disclosures for the first two reporting years (the "**Interim Period**") following 1 January 2024 in light of the practical difficulties in implementing the Enhanced Disclosure Framework (such as data unavailability and the lack of standardised methodology in quantifying financial impacts). These include the following key interim provisions:

(1) **Financial effects of climate-related risks and opportunities**: Qualitative disclosures allowed during the Interim Period.

(2) **GHG Emissions:** Issuers may disclose (i) to the extent available, information that may enable investors to understand its relevant upstream or downstream activities along the value chain and (ii) its work plan, progress and timetable for making full disclosure.

Proposed scope and date of implementation

Subject to responses to the Proposals, the revised Appendix 27 will come into force on **1 January 2024**. At the expiry of the Interim Period, issuers are expected to be in full compliance with all the new climate-related disclosures in respect of financial years commencing on or after **1 January 2026**. It is important that issuers should start reviewing their internal procedures and put in place any measures necessary for complying with the enhanced requirements.

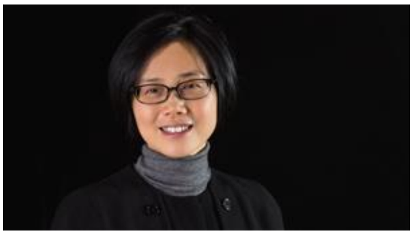
In addition to listed issuers, listing applicants are expected to disclose material ESG risks and information in their prospectuses, and have mechanisms in place which would enable them to meet the Exchange’s ESG requirements upon listing. Listing applicants should therefore be mindful of the new climate-related disclosure requirements and commence necessary preparatory work to ensure compliance after listing once the new rules take effect.

Conclusion

The Enhanced Disclosure Framework is expected to import the majority of the requirements under the ISSB Climate Standard. The Exchange envisaged an adaptive approach to take into account the practical difficulties faced by issuers in complying with the enhanced disclosure requirements, for example those in relation to Scope 3 emissions and quantification of climate risks and opportunities.

We will provide further updates following the Exchange's finalised publication of the rules and implementation guidance on the new mandatory climate-related disclosures.

Contact us



Jane Ng
Partner, Head of corporate
T: +852 2533 2828
E: jane.ng@shlegal.com

Denise Tsui
Of counsel
T: +852 2533 2774
E: denise.tsui@shlegal.com

Michael Mok
Associate
T: +852 3166 6910
E: michael.mok@shlegal.com

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